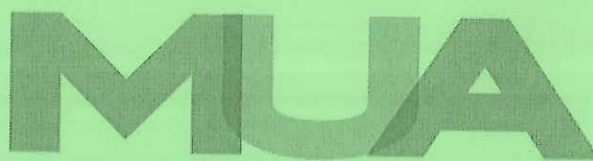


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

**DEGREE OF BACHELOR OF BUSINESS MANAGEMENT AND
LEADERSHIP**

ACC 314: ADVANCED FINANCIAL ACCOUNTING

DATE: 10TH AUGUST 2018

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Akinyi and Chinedu were in partnership sharing profits and losses in the ratio of 3:2 respectively. Their statement of financial position as at 31 December 2010 was as follows:

Akinyi and Chinedu Enterprises**Statement of financial position as at 31 December 2010**

Assets	Shs'000'
Non-current assets	
Plant and machinery	2,800,000
Fixtures and fittings	400,000
Investments	1,000,000
Total non-current assets	4,200,000
Current assets	
Inventory	600,000
Trade receivables	1,900,000
Bank	1,150,000
TOTAL ASSETS	7,850,000
Capital and reserves	
Reserves	1,000,000
Capital:	
Akinyi	800,000
Chinedu	500,000
Accumulated profits	(750,000)
Owners Equity	1,550,000
Non-current liabilities	
Loan from Akinyi	1,500,000
Loan from KCB	1,000,000
Current liabilities	
Creditors	3,800,000
	7,850,000

Additional information:

On 1st Jan 2011 the partners decided to dissolve the partnership after serious disagreements and the following information was provided:

1. Akinyi took over the investment at shs 800,000 and also agreed to pay the loan from KCB.
2. The assets realized the following amounts:
Stocks shs 500,00
Trade receivables shs 1,850,000
Fixtures and fittings shs 450,000
Plant and machinery shs 2,500,000
3. Dissolution expenses amounted to shs 110,000
4. Creditors were paid an amount less 2.5% discount
5. The loan fro Akinyi was paid in full.

Required:

- | | |
|------------------------|------------|
| a) Realisation account | (7 marks) |
| b) Capital account | (12 marks) |
| c) Bank account | (6 marks) |

QUESTION TWO

- a) Explain the following terms
 - i) Insurance contract (1 mark)
 - ii) Commission ceded (1 mark)
- b) The following trial balance was extracted from the books of Uwezo Bank Ltd for the year ended 31 December 2013.

	Shs' million'	Shs' million'
Interest income: Loans and advances		21,231
Government securities		2,959
Placement with other banks		436
Interest expense: Customer deposits	8,013	
Placement from other banks	297	
Foreign exchange trading		1,455
Foreign exchange trading		1,297
Operating expenses	6,118	
Loan impairment loss	999	
Cash with central bank	17,170	
Government securities	27,694	
Financial assets	30,000	
Loans and advances	119,200	
Property, plant and equipment	8,924	
Intangible assets	388	
Placement with other banks	8,400	
Borrowed funds		4,572
Customer deposits		162,300
Retirement benefits liability		175
Placement from other banks		1,065
Share capital		4,200
Share premium		3,580
Retained profits		23,933
	227,203	227,203

Additional information:

- i) Interest expense accrued on customer deposits not accounted for amounted to shs 150 million.
- ii) Financial assets are classified as follows:

	Book value million	Fair value million
Held for trading	18,200	22,000
Available overseas	11,800	12,000

- iii) A further allowance on loan losses amounting to shs 48.5 million is to be provided.

Required:

- a) Statement of comprehensive income for the year (6 marks)
- b) Statement of financial position as at 31 March 2013 (7 marks)

QUESTION THREE

On 1 October 2014, P LTD acquired 60% of the equity share capital of S LTD in a share exchange of two shares of P LTD, for three shares of S Ltd. On this date shares of P Ltd, were trading at shs.8 each. Below are the financial statements for the two companies for the year ended 31st March 2015.

	P LTD	S LTD
	SHS '000	SHS '000
Revenue	170,000	84,000
Cost of sales	(126,000)	(64,000)
Gross profit	44,000	20,000
Distribution costs	(4,000)	(4,000)
Administrative expenses	(12,000)	(6,400)
Finance costs	(600)	(800)
Profit before tax	27,400	8,800
Income tax expense	(9,400)	(2,800)
Profit for year	18,000	6,000

Statements of financial position as at 31st March 2015:

	SHS "000"	SHS "000"
Assets		
Non-current assets		
Property , plant and equipment	60,900	18,900
Investment property	20,300	6,300
	18,200	25,200
Current assets		
Inventory	12,080	5,000
Receivables	11,920	4,900
Bank	8,000	3,300
	32,000	13,200
	113,200	38,400
Equity and liabilities		
Capital and reserves		
Ordinary share capital(sh. 1 each)	20,000	8,000
Retained earnings	70,800	13,000
	90,800	21,000
Non-current liabilities		
10% loan notes	6,000	8,000

Current liabilities		
Trade payables	12,300	7,050
Accruals	4,100	2,350
	16,400	9,400
	113,200	38,400

Additional information:

1. The issue of shares on acquisition of S ltd has not yet been recorded by P ltd
2. As at the acquisition date, fair values of S ltd.'s assets were equal to their carrying amount except for an item of plant which had a fair value of shs. 2 million in excess of the carrying amount. The plant had a remaining useful life 5 years as at the acquisition date. S ltd has not revalued its assets.
3. Sales from S ltd to P ltd in the post-acquisition ltd period amounted to shs. 8 million. S ltd made a markup of 40%. Shs. 2.8 million of these goods at cost of P ltd were still included in inventory on 31st March 2015.
4. S ltd.'s trade receivables include shs.800,000 due from P ltd which did not agree with the corresponding payables this was due to cash paid by P ltd which was yet to be received by S ltd.
5. P ltd has a policy of accounting for any non-controlling interest at fair value of goodwill attributable to non-controlling interest in S ltd was shs. 2.4 million.
6. Neither of the company declared dividends in the year ended 31st March 2015.

Required:

- i. Consolidated statement of comprehensive income for the year ended 31st March 2015. (7 marks)
- ii. Consolidated statement of financial position as at 31st March 2015. (8 marks)

QUESTION FOUR:

Able, Brave and Calm have been in partnership sharing profits and losses in the ratio 2;2;1 respectively. Their financial year end is 31 December. Able died on 5 June 2014 and the surviving partners decided to dissolve the partnership from that date. The terms of dissolution were that the assets were to be realized, outstanding debts paid

and the remainder to be shared by the partners.(The share of Able to be paid to the executor of his estate)in an equitable manner, distribution of cash being made as soon as possible .

The following is the statement of financial position of the partnership as at 6 June 2014:

Able,Brave and Calm
Statement of financial position as at 6 June 2014

	Net book value sh."000
Non-current assets:	
Land and buildings	45,000
Plant and machinery	18,400
Fixtures and fittings	5,200
motor vehicles	1,800
Intangible assets(goodwill)	22,300
	93,200
Current assets:	
Inventory	17,000
Trade receivables	15,500
Bank balance	2,300
Cash balance	800
	35,600
TOTAL ASSETS	128,800
Capital and liabilities;	
Capital accounts;Able	25,000
Brave	16,000
Calm	10,000
	51,000
current accounts	
Able	8,000
brave	5,500
	13,500
long-term liability	
Bank loan	40,000
current liabilities	
trade payables	8,200
Bank overdraft	16,000
	24,300
Total capital and liabilities	128,800

Additional information:

1. Dissolution expenses amounted to sh.450,000 were paid on 30 November 2014.
2. As soon as sufficient money was available, all outstanding creditors were paid after the discount received which amounted to shs.250,000.
3. The partnership had an assurance partners on the lives of death. The premiums had been charged to insurance expense and the cash payable on death of any partner is 10,000,000.
4. The assets were sold and the monies received on piecemeal .

Date	Particulars	Amount shs '000
3 rd June 2014	Life policy on Abbies life	10,000
	life policy on the lives of Brave	4,000
	and Calm surrendered	
23 rd July 2014	Land and building	45,000
	Plant and machinery	10,300
	Trade receivables	6,500
20 th August 2014	Mortovehicle	1,800
	fixture and fitting	2,200
15 th September 2014	Plant and machinery	8,100
	fixture and fittings	2,000
20 th October 2014	Inventory	17,000
	Trade receivables.	10,000

Required

- a) Statement showing how the proceeds of the dissolution will be shared
between the partners (8 marks)
- b) Realization accounts (3 marks)
- c) Partners capital account (4 marks)

QUESTION FIVE:

The following financial information was extracted from the books of Zuraya commercial Bank Ltd. As at 31st December 2012.

	sh.'million'
Cash and balance with central bank	4,698
Deposits and balances due from other banks	6,671
Government securities	5,074
Loans and advances to customers	40,758
Other assets	215
Deferred tax assets	19
Other investments	52
Property, plant and equipment	751
Intangible assets	775
Interest income: Finance lease	1,513
Loans and advances to customers	2,887
Government and securities	470
Deposits with other banks	72
Interest expense on customer deposits	1,506
Interest expense on deposit by other banks	38
Fees and commission income	638
Foreign exchange income	548
Other operating income	638
Customer deposits	48,492
Deposits by other banks	733
Current tax liability	60
Fees and commission expense	55
Impairment of loans and advances	317
Staff costs	1,262
Other operating expenses	1,026
Income tax expense	744
Ordinary share capital	1,795
Share premium	29
Revaluation reserve	168
Deferred tax liability	482
Statutory reserve	615
Retained profits as at 1 January 2012	3,884
Other liabilities	892

Required:

Income statement for the year ended 31 December 2012

(15 marks)**QUESTION SIX**

- (a) "A parent need not present consolidated financial statements if and only if
 "extract from paragraph 10 IAS 27. List the four situations that exempt a

parent from presenting consolidated financial statements. **(8 marks)**

- (b) Given the general demand for more corporate governance the issue of the related party transaction is more urgent than ever. Set out what is a related party and a related party transaction. Discuss how related party relationship are important in the context of financial statements and corporate governance objectives **(7 Marks)**